

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
directing the Commission Staff to explore options)	
for energy efficiency programs in Michigan)	Case No. U-14667
for customers of electric and gas utilities)	
_____)	

At the October 18, 2005 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER

In addition to the property damage and human tragedy caused by Hurricanes Katrina and Rita in the Gulf Coast, these storms have produced an unprecedented shock to the national energy market, causing the wholesale price of natural gas to nearly double in less than two months. Michigan, like most other states, may feel the consequences of these events for months or even years to come. The Commission notes that the effects of natural gas supply disruption and increased prices are less significant for Michigan than for other Midwestern states because Michigan's natural gas utilities are able to store large volumes of natural gas in underground storage fields. Nevertheless, Michigan remains vulnerable to increases in energy costs due to its large concentration of heavy industry that relies on imported natural gas for both fuel and feedstock purposes. Thus, any increase in the price of natural gas has an adverse impact on the state's economy. Furthermore, approximately 80% of Michigan homes depend on natural gas for

space heating, compared to a national average of approximately 52%.¹ A substantial increase in natural gas prices presents not only an economic problem for many Michigan households, particularly low income households, but a health and safety issue as well, in Michigan's cold winter climate.

According to the American Council for an Energy-Efficient Economy (ACEEE), recent trends in the energy market include:

- Natural gas wholesale prices for the winter season are hitting record highs at greater than \$13 per thousand cubic feet (Mcf), more than five times 1990's levels.
- Heating bill forecasts show home energy costs soaring by 50% or more this winter in some regions. The Commission Staff (Staff) forecasts that average residential winter heating bills for natural gas customers in Michigan will increase 46% or approximately \$59 per month.
- Coal prices are up due to increased demand from power generators and problems on western railroad shipping lines.
- Electricity prices, driven by high gas and rising coal prices are also likely to increase.²

Although the damage to energy infrastructure along the Gulf Coast has resulted in alarming price increases for this winter, natural gas prices have in fact been rising steadily since 2000; from 1999 until 2004, natural gas prices nearly tripled. As a result, Michigan residential, commercial, and industrial customers were paying over \$7.5 billion for gas in 2004 compared to approximately \$5.1 billion in 2002. The recent destruction on the Gulf Coast has only made more urgent the need

¹United States Census Bureau data from 2000, available at http://factfinder.census.gov/servlet/QTTTable?_bm=y&-geo_id=01000US&-qr_name=DEC_2000_SF3_U_QTH8&-ds_name=DEC_2000_SF3_U&-lang=en&-redoLog=false&-_sse=on.

²Therese Langer, Neal Elliott, Bill Prindle, and Steve Nadel, *Responding to Katrina's Energy Challenges: Options for increasing Energy Efficiency through Appropriations, and Oil and Natural Gas Policies*, (September 2005) < <http://www.aceee.org/energy/katrinaep.pdf>>.

for Michigan to implement a multi-faceted, efficient, and effective approach to manage this energy crisis.

Fortunately, Michigan has considerable experience in addressing the challenges of energy scarcity and high energy costs. Over thirty years ago, the Organization of Petroleum Exporting Countries' (OPEC) oil embargo heightened the awareness of Michigan citizens and policy makers to Michigan's energy dependency and the impact of price increases on the economic and physical well-being of the residents and businesses of the state. As a result, Michigan became a leader in energy efficiency programming, beginning in 1973 with a financing program that offered information and loans for conservation measures at reduced interest rates through seven of the state's largest gas and electric utilities. In 1978, a customer information program was approved by the Commission and offered by the Consumers Power Company (Consumers). The program was designed to increase awareness of energy use by supplying information on improving energy efficiency to over 300,000 customers per year.

In 1981, Michigan Consolidated Gas Company (Mich Con) and Consumers began offering the Zero Interest Program to their residential gas customers under the authority provided by 1978 PA 211, MCL 460.6c, which permitted utilities to provide no-interest loans for insulation and furnace retrofit devices. By 1983, over 33,000 loans had been made. Also in 1981, the Residential Conservation Services Program, mandated by the National Energy Conservation Policy Act of 1978, as amended, 42 USC 8201 *et seq.*, was implemented by nine utilities whose service areas encompassed more than 96% of Michigan households. The program featured home energy analyses, including reports of approximate costs and returns for a number of conservation measures, a do-it-yourself conservation kit, arrangement of services for installation and financing of energy conservation technologies, and post-installation inspections.

In 1981, The Detroit Edison Company (Detroit Edison), Consumers, and Mich Con started the Insulation Outreach Program. Under this Commission-authorized program, qualifying low-income customers received ceiling insulation at no charge.

Throughout the latter half of the 1980s and into the early 1990s, Michigan's gas and electric utilities continued to be among the country's leaders in the delivery of energy efficiency and conservation programs for their customers. Programs were made available to ensure that virtually all classes of customers would have opportunities to improve their energy end-use efficiency through measures appropriate for their circumstances. Independent program evaluations were conducted for the purpose of learning how to improve the program efforts and how to best design, market, and implement programs to different types of customers. Thousands of residential, commercial, and industrial Michigan utility customers took advantage of these programs and benefited from reductions in their own utility bills. Moreover, with many of the programs, evaluations showed that all customers benefited from lower system-wide demands for energy, including the temporary or even indefinite postponement of otherwise required utility infrastructure investments.

For a variety of reasons, however, these efforts were suspended in the early 1990s. Most importantly, natural gas prices were significantly reduced and remained low throughout the decade, and the move towards more competitive utility industry structures convinced many stakeholders and policy-makers that utility-run energy efficiency programs were no longer necessary, because, they believed, competitive markets would quickly adjust to provide such services.

Now, however, the Commission finds that a rational energy policy for Michigan must include efforts towards identifying and implementing practical, cost-effective, and achievable reductions

in energy demand through energy efficiency programs. Toward that end, the Commission directs its Staff to provide an overview of energy efficiency programs that are currently being implemented in both the natural gas and electric sectors in Michigan and other states. In so doing, the Staff should identify what can be done to achieve gains in energy efficiency in Michigan within the Commission's existing regulatory authority, as well as identifying other programs that could be implemented with appropriate changes in regulation. The Staff's inquiries should include, but not be limited to, educational and technical assistance programs, utility rate restructuring, efficiency incentive programs, grant and loan programs or other innovative financing options.

As part of its review, the Staff should recommend alternatives designed to improve energy efficiency, make energy utility services more affordable for Michigan ratepayers, and enhance the State's economy. Upon completion and filing of the report the Staff shall convene one or more public meetings to receive comments from all interested parties on its recommendations and to develop consensus on a preferred course of action. At the conclusion of the public meetings, the Staff will file a report on the results and recommendations for future actions, in both the long and short term.

The Commission has selected this case for participation in its Electronic Filings Program. The Commission recognizes that all filers may not have the computer equipment or access to the Internet necessary to submit documents electronically. Therefore, filers may submit documents in the traditional paper format and mail them to the: Executive Secretary, Michigan Public Service Commission, 6545 Mercantile Way, P.O. Box 30221, Lansing, Michigan 48909. Otherwise, all documents filed in this case must be submitted in both paper and electronic versions. An original and four paper copies and an electronic copy in the portable document format (PDF) should be filed with the Commission. Requirements and instructions for filing electronic documents can be

found in the Electronic Filings Users Manual at:

<http://efile.mpsc.cis.state.mi.us/efile/usersmanual.pdf>. The application for account and letter of assurance are located at <http://efile.mpsc.cis.state.mi.us/efile/help>. You may contact Commission staff at (517) 241-6170 or by e-mail at mpscefilecases@michigan.gov with questions and to obtain access privileges prior to filing.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1980 PA 50, as amended, MCL 460.6*et seq.*; 1984 PA 378, MCL 460.6c; 1909 PA 300, as amended, MCL 462.2 *et seq.*; 1919 PA 419, as amended, MCL 460.51 *et seq.*; 1939 PA 3, as amended, MCL 460.1 *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*

b. The Staff should prepare an overview of the status of electric and natural gas efficiency programs in Michigan and other states together with review of the most promising alternatives, including recommendations for action, to be filed and posted to the Commission's website by January 31, 2006.

c. The Staff should convene an initial public meeting to review its report and begin developing consensus on a course of action not more than 30 days after its report is issued. All interested persons are encouraged to attend the public meeting.

THEREFORE, IT IS ORDERED that:

A. The Commission Staff shall prepare an overview of the status of electric and natural gas efficiency programs in Michigan and other states and a review of the most promising energy

efficiency alternatives including recommendations to be filed with the Commission and posted to the Commission's website by January 31, 2006.

B. All interested parties are invited to file comments on the Commission Staff report or any other matter relevant to this proceeding.

C. The first public meeting to review the Commission Staff report and develop consensus shall be held no more than 30 days after the date the Commission Staff files its report in the offices of the Commission. All interested parties are invited to participate.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chairman

(S E A L)

/s/ Laura Chappelle

Commissioner

/s/ Monica Martinez

Commissioner

By its action of October 18, 2005.

/s/ Mary Jo Kunkle

Its Executive Secretary

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